

TESTIMONY OF JACQUELINE R. CHERRY
FOR
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2003-3-E
IN RE: DUKE POWER COMPANY

Q. PLEASE STATE FOR THE RECORD, YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA.

A. My name is Jacqueline R. Cherry. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Audit Department, as an auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE?

A. I received a B. S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by this Commission in February 1979, and have participated in cases involving gas, electric, telephone, water and wastewater utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to summarize the results of the Audit Staff's examination of Duke Power Company's Fuel Adjustment Clause operation for the period **June 2002** through **May 2003**. The findings of the examination are contained in the Audit Department's section of the Commission Staff Report, prepared for this proceeding.

Q. WHAT WAS THE SCOPE OF THE EXAMINATION?

A. The Audit Staff traced the fuel information, as filed in the Company's required monthly filing, to the Company's books and records. The audit covered the period **April 2002 through March 2003**. The purpose of the examination was to determine if Duke Power Company had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.

Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE SCOPE OF THE AUDIT?

A. The examination consisted of the following:

1. An Analysis of Account # 151 – Fuel Stock
2. Sample of Receipts to the Fuel Stock Account – Account # 151
3. Verification of Charges to Nuclear Fuel Expense – Account # 518
4. An Analysis of Purchased Power and Interchange
5. Verification of KWH Sales
6. A Comparison of Coal Costs
7. An Analysis of Spot Coal Purchasing Procedures
8. Recomputation of Fuel Cost Adjustment Factor and Verification of Deferred Fuel Costs
9. Recomputation of True-up for the (Over)Under-Recovered Fuel Costs

Q. WITH REGARD TO THE TRUE-UP OF (OVER) UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S COMPUTATION?

A. Staff analyzed the revised cumulative under-recovery of fuel costs that the Company had incurred for the period April 2002 through March 2003 of **\$1,121,094**. Staff added the projected under-recovery for April 2003 of \$871,022 and the projected under-recovery for May 2003 of \$5,494,525 to arrive at a revised cumulative under-recovery of **\$7,486,641**. The Company's cumulative under-recovery as of March 2003 and cumulative under-recovery as of May 2003 differs from Staff's by **\$17,094**

1 and \$16,641 respectively. Staff's revised Purchased Power figures for the review
2 period differ from the Company's figures on a total system basis by \$59,700. Staff's
3 figures, per Staff's report, reflect calculation adjustments made to Purchased Power
4 Costs for the review period, based on Staff's review of Purchased Power system
5 operations reports and invoices. Staff's calculation adjustments to Purchased Power
6 Costs reflects Staff's treatment of purchases that have identifiable fuel components
7 and those market-based purchases that do not have an identifiable fuel component
8 reflected on any invoices. Staff's Exhibit G, S.C. Retail Comparison of Fuel
9 Revenues and Expenses, which consist of four pages, provides detailed explanations
10 for Staff's revised cumulative under-recovery differences. As stated in Duke Power
11 Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to
12 the extent determined reasonable by the Commission. Accordingly, the Commission
13 should consider the revised under-recovery of \$7,486,641 along with the anticipated
14 fuel costs for the period June 1, 2003 to May 31, 2004 for the purpose of
15 determining the base costs for fuel in base rates effective June 1, 2003. This revised
16 under-recovery figure of \$7,486,641 was furnished to the Commission's Utilities
17 Department.

18 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS**
19 **ON STAFF AUDIT EXHIBIT G?**

20 (1) For the review period, April 2002 through March 2003, Staff's Purchase and Interchange
21 Power Costs reflects two types of Staff treatment of certain purchases. These two types
22 concern the treatment of fuel costs components in purchase power transactions. In a
23 continuing effort to identify the fuel portion of Purchased Power for recovery through the
24 Fuel Clause, in its first treatment, Staff has identified the fuel component contained on
25 various Company purchase invoices. Staff's identifiable fuel cost components total
26 \$20,008,131. For cost recovery purposes, the Company's total fuel expenses in its
27 purchases are netted against the fuel associated with its off-system sales. The net effect is
28 that what remains in purchased power fuel is the "native load" portion associated with
29 purchases. Therefore, this \$20,008,131 would be less on a "native load" basis. The

1 **identifiable fuel cost components, on a “native load” basis totals \$8,819,365. Staff**
2 **has allocated amounts for the identifiable fuel costs components by the ratio of**
3 **native load MWH purchases to total MWH purchases. It should be noted that Duke**
4 **Power Company has already implemented the use of the identifiable fuel component per**
5 **the Company’s testimony in Docket No. 2003-3-E.**

6
7 In Staff’s second treatment, for power marketers where the fuel component of purchases
8 cannot be identified, Staff has utilized the lower of total transaction costs or the “avoided
9 fuel cost” proxy in determining amounts to be recovered. Staff has attempted to identify the
10 fuel portion of avoided costs, once again, to continue in the effort to identify the fuel portion
11 of purchased power costs.

12
13 It should be noted that Staff has revised its purchase power costs for several
14 invoices that were originally considered to be non-identifiable for fuel cost component
15 purposes. The invoices had purchases and sales information on them. After a closer
16 examination, Staff found that the Company had listed purchase fuel components on the
17 invoices where usually the sales fuel components were listed. Staff traced these
18 purchase amounts to the Company’s purchase reports. Therefore, Staff had to treat
19 these invoices as identifiable fuel cost component invoices. The fuel costs of \$505,368
20 are included in Staff’s revised identifiable fuel cost components total. On a native load
21 basis, the amount totals \$59,432. For identifiable fuel costs, except for those fuel costs
22 previously noted on a native load basis, Staff notes that since the Company already

1
2 included the identifiable fuel costs components in the fuel clause computations, Staff did not
3 have to make an adjustment to include them. For non-identifiable fuel costs, Staff adjusted
4 the Company's purchase power figures by \$59,700.

5
6 (2) Staff's October 2002 deferred fuel amount of (\$4,172,246) consists of two amounts:
7

8 (a) The under-recovery deferred fuel entry for the month of October 2002 which
9 totals \$2,050,754; and (b) a Company adjustment to the cumulative balance of the
10 deferred account, on a S.C. jurisdictional basis, which totals (\$6,223,000) before a
11 gross receipts tax factor is applied (with the tax factor the amount totals
12 (\$6,250,000)), for a settlement agreement, which reduces the under-recovery of
13 fuel costs, as a result of an independent accounting review by Grant Thornton LLP.
14

15 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING**
16 **STAFF EXHIBITS?**

17 **A.** Staff prepared exhibits from Duke Power Company's books and records reflecting
18 fuel costs during the review period.

19 Specifically, these exhibits are as follows:

20 Exhibit A – Coal Cost Statistics

21 Exhibit B – Received Coal-Cost Per Ton Comparison

22 Exhibit C – Detail of Nuclear Cost

23 Exhibit D – Total Burned Cost (Fossil and Nuclear)

24 Exhibit E – Cost of Fuel

25 Exhibit F – Factor Computation

26 Exhibit G – S.C. Retail Comparison of Fuel Revenues and Expenses
27

28 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**
29 **DEPARTMENT'S EXAMINATION?**

1 A. Based on the Audit Staff's examination of Duke Power Company's books and
2 records, and the utilization of the fuel cost-recovery mechanism as directed by the
3 Commission, the Audit Department is of the opinion that the Company has complied
4 with the directives (per the Fuel Adjustment Clause) of the Commission.

5 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.